COMMITTEE PROCEEDINGS

North Carolina made little use of tax incentives to lure businesses to the State prior to 1996. Even without incentives, North Carolina consistently ranked as one of the top states in attracting industry. In 1996, in response to incentives offered by other southern states, the General Assembly enacted an array of statutory tax credits to incent companies to create or expand job opportunities. The initial incentive program, known as the "Bill Lee Act", had two shared goals: create high quality jobs and promote widely shared prosperity across the State. Over the next decade, the State expanded its use of statutory tax incentives and introduced the use of discretionary nontax incentives as well. The largest discretionary nontax incentives are the Job Development Investment Grant Program and the One North Carolina Fund.

The stated objectives in 1996 have blurred in practice as most of the incented companies have located in metropolitan areas of the State and amendments to the laws have weakened the applicable wage standards. In 2007, the State further ended the initial goals by granting discretionary nontax incentives to companies for making significant capital investments in the State. The program, known as the Job Maintenance and Capital Development Fund, provided a direct incentive to existing businesses and it did not require job creation. This legislation marked a shift from using incentives to create and expand job opportunities to using incentives to retain existing jobs.

The initial incentive program enacted in 1996 was originally viewed as an experiment, to be evaluated in five years to determine whether the incentives were cost effective and actually affected behavior or merely provided tax reductions to businesses that would have located or expanded in any case. Increased use of State and local incentives in 2006 and 2007 renewed interest in the answer to these questions and became the catalyst for the creation of the Joint Select Committee on Economic Development Incentives in March 2007. The Committee viewed its formation as an opportunity to accomplish the following:

- Review the State's current economic development incentives policies and practices.
- Analyze the cost associated with those policies.
- Identify the incentives that give the State the greatest economic development impact for its investment of public monies.
- Revisit and reassess the State's economic development goals.
- Evaluate whether the State's economic development incentive policies further these goals.

To accomplish these objectives, the Committee needed a thorough analysis of the available data of the incentive recipients and the employment performance of these incented companies. In January 2008, the Committee contracted with the University of North Carolina's Center for Competitive Economies (C^3E) to assist it in evaluating the performance of North Carolina's economic development incentive programs. The work of the Committee culminated with a summary of C^3E's findings and recommendations. The Committee drew largely from this research to develop its Legislative Findings and